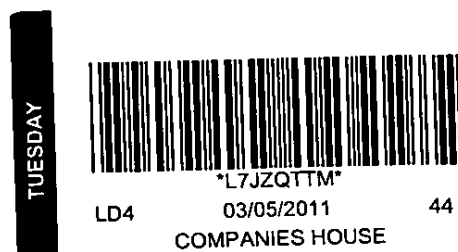


**UK POWER NETWORKS SERVICES (SOUTH EAST) LIMITED
(Formerly EDF ENERGY (SOUTH EAST) PLC)**

Registered Number 2366867

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2010



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Directors

Andrew John Hunter
Neil Douglas McGee
Basil Scarsella

Company Secretary

Christopher Baker

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Registered Office

Newington House
237 Southwark Bridge Road
London
SE1 6NP

DIRECTORS' REPORT

The Directors present their annual report and financial statements for the year ended 31 December 2010

Principal activity and review of the business

The Company's principal activity during the year continued to be the provision of management services, property services and the holding of investments. It will continue in this activity for the foreseeable future.

On 29 October 2010, UK Power Networks Holdings Limited (formerly Eclipse First Network Limited) acquired the Distribution Networks and associated non-regulated businesses, including UK Power Networks Services (South East) Limited (formerly EDF Energy (South East) plc), from EDF Energy plc.

Change of name

On 25 August 2010 the Company re-registered as a private company, changing its name from EDF Energy (South East) plc to EDF Energy (South East) Limited. On 1 November 2010, subsequent to the acquisition, the Company changed its name to UK Power Networks Services (South East) Limited.

Business Review

The profit for the year, before taxation, amounted to £11.5m (2009: £5.3m) and after taxation, to £9.1m (2009: £8.6m). Dividends of £80.3m were paid in the year (2009: £nil).

The UK Power Networks group ("the Group") manages its operations on a business segment basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the business segments including this Company is discussed in the Group's Annual Report which does not form part of this Report.

Future developments

The Directors regard the results for the year and the year-end financial position as satisfactory and expect the Company to continue to perform to a satisfactory level in the future.

Directors

Directors who held office during the year and subsequently are as follows:

Thomas Kusterer	(resigned on 29 October 2010)
Joe Souto	(resigned on 29 October 2010)
Andrew John Hunter	(appointed on 29 October 2010)
Neil Douglas McGee	(appointed on 29 October 2010)
Basil Scarsella	(appointed on 29 October 2010)

None of the Directors had a service contract with the Company in the current or prior year.

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

DIRECTORS' REPORT Continued

Financial risk management

The Company considers its principal risk to arise from financial risk, being credit and liquidity risk

The Company's exposure to these risks is reduced as it is a member of the UK Power Networks Services group of companies. Credit risk is mitigated by the nature of the debtor balance owed, with these due from other Group companies who are able to repay these if required and liquidity risk is mitigated by the financial support given by UK Power Networks Services Holdings Limited

The Company is not exposed to any significant currency or interest rate risk. The Group's risks are discussed within the Group's Annual report, which does not form part of this report

Going concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements

Creditors' payment policy

The Company's current policy concerning the payment of its trade creditors and other suppliers is to

- agree the terms of payment with those creditors/suppliers when agreeing the terms of each transaction,
- ensure that those creditors/suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with its contractual and other legal obligations

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception. At 31 December 2010, the Company had an average of 4 days (2009: 19 days) purchases outstanding in its trade creditors

Political and charitable contributions

The Company made no charitable donations or political contributions in either year

DIRECTORS' REPORT Continued

Disclosure of information to Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware, and
- the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Auditor

On 6 July 1999 the Company passed an elective resolution dispensing with the requirement to appoint an auditor annually. In accordance with s487 of the Companies Act 2006, Deloitte LLP are deemed re-appointed until such time as the members or the Directors determine otherwise.

Approved by the Board and signed on its behalf by



B Scarsella
Director
26 April 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and of the profit and loss of the Company for the year. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable United Kingdom Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR REPORT TO THE MEMBERS OF UK POWER NETWORKS SERVICES (SOUTH EAST) LIMITED

We have audited the financial statements of UK Power Networks Services (South East) Limited (formerly EDF Energy (South East) plc) for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Makhan Chahal (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

26 April 2011

UK POWER NETWORKS SERVICES (SOUTH EAST) LIMITED
(FORMERLY EDF ENERGY (SOUTH EAST) PLC)
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Note</i>	2010 £m	2009 £m
Turnover	2	5.6	7 0
Operating costs		(2.9)	(3 5)
Operating profit	3	2.7	3 5
Loss on sale of fixed assets		(1.6)	-
Income from fixed asset investments	6	10.5	1 9
Profit on ordinary activities before interest and taxation		11.6	5 4
Interest payable and similar charges	7	(0.1)	(0 1)
Profit on ordinary activities before taxation		11.5	5 3
Tax on profit on ordinary activities	8	(2.4)	3 3
Profit for the financial year	17	9.1	8 6

All results are derived from continuing operations in both the current and preceding year

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Note</i>	2010 £m	2009 £m
Profit for the financial year		9.1	8 6
Actuarial gain/(loss) net of deferred tax on defined pension benefits	18	1.3	(0 8)
Total recognised gains		10.4	7 8

The deferred tax charge (2009 credit) reflected in the actuarial gain (2009 loss) is £0.4m (2009 £0.3)

UK POWER NETWORKS SERVICES (SOUTH EAST) LIMITED
(FORMERLY EDF ENERGY (SOUTH EAST) PLC)
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

BALANCE SHEET
AT 31 DECEMBER 2010

	<i>Note</i>	2010 £m	2009 £m
Fixed assets			
Tangible assets	9	9.2	18.7
Investments in subsidiary undertakings	10	919.2	919.4
Other investments	11	-	0.7
Total fixed assets		928.4	938.8
Current assets			
Debtors: amounts falling due within one year	12	327.3	82.2
Investments: unlisted money market investments		23.3	-
Cash		-	215.5
Total current assets		350.6	297.7
Creditors: amounts falling due within one year	14	(1,036.4)	(922.8)
Net current liabilities		(685.8)	(625.1)
Net assets excluding pension liability		242.6	313.7
Pension liability	18	-	(1.2)
Net assets		242.6	312.5
Capital and reserves			
Called up share capital	15	125.8	125.8
Share premium account	17	7.8	7.8
Capital redemption reserve	17	6.8	6.8
Profit and loss account	17	102.2	172.1
Shareholder's funds	17	242.6	312.5

The financial statements of UK Power Networks Services (South East) Limited, registered number 2366867 on pages 7 to 23 were approved by the Board of Directors on 26 April 2011 and were signed on its behalf by



B Scarsella
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are set out below. They have all been applied consistently throughout the current and the preceding year.

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards.

Going concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Cash flow statement

The Company is exempt from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements (revised 1996)' as it is a member of a group, headed by UK Power Networks Holdings Limited, whose consolidated accounts include a cash flow statement and are publicly available.

Consolidation

The Company is exempt from preparing consolidated accounts as it is a wholly owned subsidiary of UK Power Network Holdings Limited, which prepares consolidated accounts which include the results of the company and will be publicly available.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of acquisition of each asset evenly over its expected useful life, as follows:

Land	–	Not depreciated
Buildings	–	40 years
Fixtures and fittings	–	3 to 10 years

Investments

Fixed asset investments are shown as cost less any provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, with the following exceptions

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses,
- provision is made for gains on re-valued fixed assets only where there is a commitment to dispose of the re-valued assets and the attributable gain can neither be rolled over nor eliminated by capital losses, and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted

Deferred tax is measured on an undiscounted basis

Leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term, even if payments are not made on such a basis

Rental income from an operating lease is recognised on a straight-line basis over the period of these leases, even if the payments are not made on such a basis

Pensions

The Company has obligations under two funded defined benefit pension arrangements as part of the UK Power Networks group and the Company accounts for these schemes in accordance with FRS 17 'Retirement Benefits', ("FRS 17")

The amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately the costs are recognised over the period until vesting occurs. The interest cost and the expected return on the assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in a separate trustee administered fund. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

NOTES TO THE FINANCIAL STATEMENTS continued

2. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of providing management services, property services and financial guarantees. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and to the extent that it can be measured reliably.

Rental income under operating leases for the year ended 31 December 2010 amounts to £3.4m (2009 £4.4m) which is included within turnover.

3. Operating profit

	2010	2009
	£m	£m
This is stated after charging		
Depreciation of owned fixed assets	0.9	0.7
Operating lease rentals - land and buildings	1.4	1.8

Amounts payable to Deloitte LLP and their associates by the Company in respect of audit services were £7,500 (2009 £20,000). Auditors' remuneration was borne in both years by another group company.

4. Directors' emoluments

The Directors are not employed directly by the Company and did not receive any remuneration for services to the Company during the current or preceding year.

5. Staff costs

There were no employees in the current or prior year.

6. Income from fixed asset investments

	2010	2009
	£m	£m
Dividend arising on liquidation of subsidiary	-	1.9
Dividend received from subsidiary	10.5	-
	10.5	1.9

In the prior year, Longfield Insurance Company Limited, a 100% owned subsidiary of the Company, was liquidated. £2.4m was re-paid to the Company, upon winding up of which £0.5m related to repayment of the investment, and the remainder was accounted for as a dividend.

7. Interest payable and similar charges

	2010	2009
	£m	£m
Net interest cost of pension scheme	(0.1)	(0.1)

NOTES TO THE FINANCIAL STATEMENTS continued

8. Tax on profit on ordinary activities

(a) Analysis of tax charge/(credit) in the year

UK current tax	2010	2009
	£m	£m
UK corporation tax charge/(credit) on profit for the year	2.4	(1.5)
Adjustment in respect of prior year	0.1	(2.2)
Total current tax charge/(credit) for the year (note (b))	2.5	(3.7)
UK deferred tax		
Origination and reversal of timing differences	(0.1)	0.1
Adjustment in respect of prior year	-	0.3
Total deferred tax (credit)/charge for the year	(0.1)	0.4
Total tax charge/(credit) on profit on ordinary activities	2.4	(3.3)

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2009 lower) than the standard rate of corporation tax in the UK

The differences are explained below

	2010	2009
	£m	£m
Profit on ordinary activities before tax	11.5	5.3
Tax on profit on ordinary activities at standard UK rate of corporation tax of 28% (2009 28%)	3.2	1.5
Effect of		
Disallowed items for tax	0.5	-
Miscellaneous income	(2.9)	-
Chargable gains	1.4	-
Capital allowances less than/(in excess) of depreciation	0.2	(0.1)
Permanent differences	-	(2.9)
Adjustment to prior-year tax charge	0.1	(2.2)
Current tax charge/(credit) for the year	2.5	(3.7)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No2) Act 2010 included legislation to reduce the main stream rate of corporation tax from 28% to 27% from 1 April 2011. This has had no impact on the results for the period.

NOTES TO THE FINANCIAL STATEMENTS continued

8 Tax on profit on ordinary activities continued

Additional changes were announced in the March 2011 Budget Statement to further reduce the main stream rate of corporation tax to 26% from 1 April 2011 and thereafter by 1% per annum to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

9. Tangible fixed assets

	Land and buildings	Fixture and fittings	Total
	£m	£m	£m
Cost			
At 1 January 2010	29.4	0.4	29.8
Additions	-	0.1	0.1
Disposals	(15.0)	(0.1)	(15.1)
At 31 December 2010	14.4	0.4	14.8
Depreciation			
At 1 January 2010	11.0	0.1	11.1
Disposals	(6.4)	-	(6.4)
Charge for the year	0.9	-	0.9
At 31 December 2010	5.5	0.1	5.6
Net book value			
At 31 December 2010	8.9	0.3	9.2
At 31 December 2009	18.4	0.3	18.7

The net book value of the land and buildings comprised

	2010 £m	2009 £m
Freehold - land	0.3	2.7
- buildings	8.5	15.6
Short leasehold	0.1	0.1
	8.9	18.4

Land and buildings held for use in operating leases were

	2010 £m	2009 £m
Cost	4.6	8.2
Accumulated depreciation	(1.3)	(3.0)
	3.3	5.2

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investments in subsidiary undertakings

	Total £m
Cost	
At 1 January 2010	919.4
Disposal	(0.2)
At December 2010	919.2
Net book value	
At 31 December 2010	919.2
At 31 December 2009	919.4

In October 2010 the company disposed of its shares in EDF Energy Networks (SPN) plc at £nil consideration, as a dividend in specie to its former parent company CSW Investments Limited

The principal undertakings at 31 December 2010, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows

	Percentage of ordinary shares held	Principal activity
UK Power Networks Services (Development) Limited	100%	Holding company
UK Power Networks (IDNO Finance) Limited*	100%	Investment company
UK Power Networks (IDNO) Limited*	100%	Investment company
UK Power Networks Services (Asset Management) Limited*	100%	Investment company
UK Power Networks Services (Commercial) Limited*	100%	Electrical contracting
UK Power Networks Services (Powerlink Holdings) Limited*	100%	Investment company
UK Power Networks Services (South East Services) Limited*	100%	Property management
UK Power Networks Services Powerlink Limited*	80%	Asset management

The associates and joint ventures as at 31 December 2010, which are incorporated in Great Britain and are registered and operate in England and Wales, are as follows

	Percentage of ordinary shares held	Principal activity
MUJV Ltd*	49.9%	Dormant
Power Asset Development Company Limited*	50%	Asset management

* Investment held indirectly

NOTES TO THE FINANCIAL STATEMENTS continued

11. Other Investments

	£m
Cost:	
At 1 January 2010	0.7
Disposals	(0.7)
At 31 December 2010	-

During the year the Company disposed of its 7 15% share in Marine Current Turbines Limited

12. Debtors - amounts falling due within one year

	2010 £m	2009 £m
Trade debtors	2.4	0.9
Corporation tax (Group relief receivables)	-	15.5
Amounts owed by other parent companies	-	51.1
Amounts owed by Group undertakings	324.9	13.6
Prepayments and accrued income	-	1.1
	327.3	82.2

NOTES TO THE FINANCIAL STATEMENTS continued

13. Deferred tax

The movements in the deferred tax asset during the year were as follows

	Restated At 1 January 2010 £m	Profit and loss account £m	Statement of total recognised gains and losses £m	At 31 December 2010 £m
Deferred tax liability	(0.2)	0.1	-	(0.1)
Deferred taxation against pension liability	0.4	-	(0.4)	-
Total deferred tax	0.2	0.1	(0.4)	(0.1)

Deferred taxation recognised in the financial statements is as follows

	2010 £m	2009 £m
Depreciation in excess of capital allowances	(0.1)	(0.2)
Net deferred taxation recoverable (above)	(0.1)	(0.2)
Deferred taxation against pension liability (above)	-	0.4
Total deferred tax (liability)/asset	(0.1)	0.2

14 Creditors' amounts falling due in one year

	2010 £m	2009 £m
Bank overdraft	26.9	-
Corporation tax	2.5	-
Amounts owed to other parent companies	1,006.0	919.9
Other creditors	0.9	2.7
Deferred tax liabilities (note 13)	0.1	0.2
	1,036.4	922.8

Amounts owed to other Group companies are non-interest bearing and repayable on demand

NOTES TO THE FINANCIAL STATEMENTS continued

15. Share capital

Authorised

	2010 Number	2009 Number	2010 £m	2009 £m
Ordinary shares of £0.50 each	400,000,000	400,000,000	200.0	200.0

Allotted, called up and fully paid

	2010 Number	2009 Number	2010 £m	2009 £m
Ordinary shares of £0.50 each	251,693,703	251,693,703	125.8	125.8

16. Dividends

	2010 £m
Ordinary dividends on equity shares – £0.319 per ordinary share	80.3

The dividend was approved on 26 October 2010 for payment to the former parent company CSW Investments Limited on 27 October 2010.

17. Reconciliation of shareholder's funds

	Share Capital £m	Share Premium £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 January 2009	125.8	7.8	6.8	164.3	304.7
Profit for the year	-	-	-	8.6	8.6
Actuarial loss net of deferred tax on defined benefit pension (note 18)	-	-	-	(0.8)	(0.8)
At 31 December 2009	125.8	7.8	6.8	172.1	312.5
Profit for the year	-	-	-	9.1	9.1
Dividend paid	-	-	-	(80.3)	(80.3)
Actuarial gain net of deferred tax on defined benefit pension (note 18)	-	-	-	1.3	1.3
At 31 December 2010	125.8	7.8	6.8	102.2	242.6

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments

The Group operates two funded defined benefit pension schemes

- The UK Power Networks Group of the ESPS (the UKPN Grp) – formerly the Networks Section of the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS), and
- The UK Power Networks Pension Scheme (UKPNPS) – formerly the Networks Section of the EDF Energy Pension Scheme (EEPS)

The new parent company UK Power Networks Holdings Limited assumed responsibility for these defined benefit arrangements on 29 October 2010, the date of acquisition of the Distribution Networks and associated non-regulated businesses from the former parent Company EDF Energy plc. Scheme assets and liabilities were assigned to the individual legal entities of the Group, including this Company, using a revised allocation methodology based on the attribution portions agreed with the industry regulator Ofgem, within the latest price control determination, DPCR5. This resulted in some transfers between legal entities of the Group where the revised allocation differed from the results of the roll forward method used by EDF Energy since 2005.

The actuarial valuation at 29 October 2010 and an updated valuation as at 31 December 2010 was carried out by Aon Hewitt. The most recent triennial valuation of the schemes for funding purposes has been performed as at 31 March 2010. Under the funding schedule agreed with the scheme trustees, the Group aims to eliminate the current deficit over the next 15 years. The Group will monitor funding levels annually and the funding schedule will be reviewed between the Group and the trustees every three years based on actuarial valuations. The next triennial actuarial valuation is due to be completed at 31 March 2013. The Group considers that the contributions rates agreed with the trustees are sufficient to eliminate the current deficit over the agreed period.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

The principal financial assumptions used to calculate scheme liabilities under FRS 17 were

	2010	2009
	%	%
Discount rate		
- UKPN Grp	5.5	5.7
- UKPNPS	5.4	5.6
Rate of increase in RPI		
- UKPN Grp	3.5	3.6
- UKPNPS	3.6	3.8
Rate of increase in CPI		
- UKPNPS	2.8	3.0
Rate of increase in salaries		
- UKPN Grp	5.0	5.6
- UKPNPS	5.1	5.3
Rate of increase of pensions		
- RPI (UKPN Grp)	3.5	3.6
- RPI up to 5% (UKPNPS - service to 31 March 2006)	3.4	3.5
- RPI up to 2.5% (UKPNPS - service from 1 April 2006)	2.2	2.3

The table below shows details of assumptions around mortality rates used to calculate the scheme liabilities

	At 31 December 2010 years
UKPN Grp	
Life expectancy for current male pensioner aged 60	28
Life expectancy for current female pensioner aged 60	30
Life expectancy for future male pensioner currently aged 40 from age 60	30
Life expectancy for future female pensioner currently aged 40 from age 60	32

	At 31 December 2010 years
UKPNPS	
Life expectancy for current male pensioner aged 65	22
Life expectancy for current female pensioner aged 65	24
Life expectancy for future male pensioner currently aged 45 from age 65	24
Life expectancy for future female pensioner currently aged 45 from age 65	27

These assumptions are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2010, which determined the Company's contribution rate for future years

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
Fair value of scheme assets	-	-	-	4 8
Present value of defined benefit obligations	-	-	-	(6 5)
Deficit in scheme	-	-	-	(1 7)
Related deferred tax asset	-	-	-	0 5
Liability recognised in the balance sheet	-	-	-	(1 2)

This amount is presented in pension liabilities

Amounts recognised in the profit and loss account in respect of the defined benefit schemes are as follows

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
Interest cost	(0.3)	-	(0.3)	(0 3)
Expected return on scheme assets	0.2	-	0.2	0 2
	(0.1)	-	(0.1)	(0 1)

There are no contributions expected to be paid to the scheme during 2011

Movements in the present value of defined obligations in the current period were as follows

	UKPN Grp 2010 £m	UKPNPS 2010 £m	Total 2010 £m	Total 2009 £m
At 1 January	(6.4)	(0.1)	(6.5)	(4 9)
Interest cost	(0.3)	-	(0.3)	(0 3)
Actuarial gain/(loss)	6.5	0.1	6.6	(1 5)
Benefits paid	0.2	-	0.2	0 2
At 31 December	-	-	-	(6 5)

The actuarial gain is due to a net transfer out of scheme liabilities at 29 October 2010 as a result of a review of the allocation of the scheme liabilities across the participating companies

NOTES TO THE FINANCIAL STATEMENTS continued

18 Pension commitments continued

Movements in the present value of fair value of scheme assets in the current period were as follows

	UKPN Grp	UKPNPS	Total	Total
	2010	2010	2010	2009
	£m	£m	£m	£m
At 1 January	4.7	0.1	4.8	4.5
Expected return on scheme assets	0.2	-	0.2	0.2
Actuarial (loss)/gain	(4.8)	(0.1)	(4.9)	0.4
Surplus/ (deficit) payment	0.1	-	0.1	(0.1)
Benefits paid	(0.2)	-	(0.2)	(0.2)
At 31 December	-	-	-	4.8

The actuarial loss includes a net transfer out of scheme assets amounting to £5.1m at 29 October 2010 as a result of a review of the allocation of the scheme assets across the participating companies

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows

	Expected return		Fair value of assets		Total	Total
	2010	2009	UKPN Grp	UKPNPS	2010	2009
	%	%	2010	2010	2010	2009
			£m	£m	£m	£m
Gilts - fixed	4.3	4.6	-	-	-	0.5
- index linked	4.2	4.5	-	-	-	0.5
Equities	7.9	8.2	-	-	-	2.1
Property	7.8	8.7	-	-	-	0.1
Corporate bonds	5.4	5.9	-	-	-	1.4
Hedge Funds	5.4	5.9	-	-	-	-
Cash	1.4	0.7	-	-	-	0.2
			-	-	-	4.8

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for each scheme as at 31 December 2010.

The actual return on scheme assets in the year was a gain of £0.4m (2009: £0.6m)

NOTES TO THE FINANCIAL STATEMENTS continued

18. Pension commitments continued

The history of experience gains and losses is as follows

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Fair value of scheme assets	-	4.8	4.4	5.4	5.1
Present value of defined obligations	-	(6.5)	(4.8)	(5.8)	(5.7)
Deficit in the scheme	-	(1.7)	(0.4)	(0.4)	(0.6)
Experience adjustments on scheme liabilities					
Amount (£m)	-	-	-	(0.3)	-
Percentage of scheme liabilities (%)	-	-	-	5.2	-
Experience adjustments on scheme assets					
Amount (£m)	0.2	0.4	1.2	-	-
Percentage of scheme assets (%)	-	8.3	27.3	-	-

The amounts recognised in the statement of total recognised gains and losses are as follows

	UKPN Grp	UKPNS	Total	Total
	2010	2010	2010	2009
	£m	£m	£m	£m
At 1 January	(0.9)	-	(0.9)	(0.1)
Actuarial gain/(losses)	1.7	-	1.7	(1.1)
Deferred taxation (charge)/credit	(0.4)	-	(0.4)	0.3
At 31 December	0.4	-	0.4	(0.9)

The cumulative amount of actuarial gains and losses recognise in the statement of total recognised gains and losses since the adoption of FRS 17 is a gain of £0.4m (2009 loss £0.9m)

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial commitments

At 31 December 2010, the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010 £m	Land and buildings 2009 £m
Operating leases which expire		
Within one year	-	0 1
In two to five years	0.5	0 3
In over five years	2.2	1 4
	2.7	1 8

20 Related parties

In accordance with FRS 8 'Related party disclosures', the Company is exempt from disclosing transactions with entities that are part of the Group or investees of the Group qualifying as related parties, as it is a wholly owned subsidiary of a parent, which prepares consolidated accounts which are publicly available

21. Parent undertaking and controlling party

UK Power Networks Services Holdings Limited holds a 100% interest in UK Power Networks Services (South East) Limited and is considered to be the immediate parent company

UK Power Networks Services Holdings Limited heads the smallest group for which consolidated accounts are prepared which include the results of the Company UK Power Networks Holdings Limited heads the largest group for which consolidated financial statements are prepared which include the Company Copies of both sets of consolidated financial statements are available from the Company Secretary at Energy House, Carrier Business Park, Hazelwick Avenue, Three Bridges, Crawley, West Sussex, RH10 1EX

UK Power Networks Holdings Limited is owned by a consortium consisting of

Power Assets Holdings Limited (Formerly Hong Kong Electric Holdings Limited)	Incorporated in Hong Kong
Li Ka Shing Foundation Limited	Incorporated in Hong Kong
Cheung Kong Infrastructure Holdings Limited	Incorporated in Bermuda

It is the opinion of the Directors that the parent company, UK Power Networks Holdings Limited has no single controlling party as that company is controlled jointly by the consortium